

**BEFORE THE TENNESSEE REGULATORY AUTHORITY AT
NASHVILLE, TENNESSEE**

IN RE:	December 20, 2005	
)	
PETITION OF MCLEODUSA)	
TELECOMMUNICATIONS)	DOCKET NO. 05-00292
SERVICES, INC. FOR AUTHORITY)	
TO COMPLETE A PROPOSED)	
RESTRUCTURING)	

**ORDER APPROVING TRANSFER OF AUTHORITY AND FINANCING
TRANSACTION**

This matter came before Director Deborah Taylor Tate, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on November 21, 2005 for consideration of the *Petition* filed by McLeodUSA Telecommunications Services, Inc. ("McLeodUSA" or "Petitioner") on October 20, 2005. In its *Petition*, McLeodUSA requests that the TRA approve a consensual Chapter 11 financial restructuring described in its *Petition* to the extent required under Tennessee law.

Background

McLeodUSA is an Iowa corporation authorized to transact business in the State of Tennessee. McLeodUSA provides integrated communication services, including local services, primarily in 25 Midwest, Southwest, Northwest and Rocky Mountain states. McLeodUSA is a wholly-owned subsidiary of McLeodUSA Holdings, Inc. which, in turn, is a wholly-owned subsidiary of McLeodUSA Incorporated ("Parent", together with McLeodUSA, "Parties").

In Tennessee, McLeodUSA is authorized to provide facilities-based and resold local exchange and interexchange services pursuant to an order issued January 24, 2001 in Docket No.

00-00906. McLeodUSA is authorized to operate as a reseller of telecommunications and operator services pursuant to a TRA Order issued in Docket No. 96-01632 on March 25, 1997.

The Petition

The *Petition* seeks approval for the Petitioner to consummate a consensual Chapter 11 Bankruptcy financial restructuring pursuant to Chapter 11 of Title 11 of the United States Code that will change the capital structure of Parent and result in an indirect change of control of Petitioner (the “Restructuring”).

The Petitioner states that the Restructuring is purely financial and certain secured creditors will become the shareholders of Parent and existing equity in Parent will be extinguished. Further, the Petitioner states that the Restructuring is part of a plan of reorganization (the “Plan”) that has been agreed upon by Parent and a majority of its secured creditors and will be filed with the United States Bankruptcy Court for the Northern District of Illinois (Eastern Division) (the “Bankruptcy Court”). Petitioner maintains that the Plan will enable McLeodUSA to continue current operations without interruption or without any change in rates, terms or conditions of the services that its customers currently receive.¹ Petitioner also states that the Plan will protect unsecured creditors and enable the Parties to emerge from Chapter 11 Bankruptcy proceedings as soon as possible.

According to the Petitioner, the Plan will allow McLeodUSA to maintain its assets while eliminating approximately \$750 million dollars in debt. The Petitioners maintain that the Plan strengthens McLeodUSA by converting debt secured by McLeodUSA’s assets into equity in

¹ As part of the Restructuring, Parent and its wholly owned subsidiaries will each act as a debtor-in-possession (DIP) in the Chapter 11 proceeding and a DIP credit facility in the amount of \$50 million will be issued for working capital and general corporate purposes in accordance with approved budgets to assure that operations continue on an uninterrupted basis during the Restructuring. As with the existing credit facility, all of Parent’s wholly owned subsidiaries, including McLeodUSA, will act as guarantors and pledge all or substantially all of their assets to secure the DIP credit facility. The credit facility and the associated security interest will be refinanced with the proceeds of the exist facility upon consummation of the Restructuring.

Parent. Although the precise equity ownership of Parent will not be known until the Parent emerges from bankruptcy, the new shareholders will be major institutional investment companies. Currently, Forstmann Little & Company owns fifty-eight percent (58%) of Parent. After the Restructuring, it is anticipated that the five largest equity holders in Parent will be Fidelity Investments (approximately 31%), Wayzata Investment Partners LLC (approximately 15%), Credit Suisse First Boston, Zurich (approximately 6%), Odyssey Credit Investors (approximately 6%) and Secondary Loan & Distressed Credit Trading (approximately 5%).

As part of the Restructuring, McLeodUSA will enter into a new post-bankruptcy “exit” credit facility which will provide for a secured, revolving credit facility in an amount not exceeding \$50 million with a letter of credit sub-facility in an amount not exceeding \$15 million. The Petitioners state that the exit facility credit agreement will be issued for working capital and general corporate purposes to assure that operations continue on an uninterrupted basis during the Restructuring. As part of the Restructuring, the exit facility credit agreement will also govern the New Term Loan Notes.² Accordingly, after the Plan, McLeodUSA will have (1) \$100 million in new term loan notes outstanding, and (2) a revolving credit facility of up to \$50 million. After the Restructuring, the total debt guaranteed by McLeodUSA’s pledge of all or substantially all of its assets will be approximately \$150 million plus accrued and unpaid interest.

The Petitioner maintains that the restructuring is in the public interest inasmuch as it will increase competition in the Tennessee telecommunications market by reinvigorating

² As of September 1, 2005, obligations outstanding under the Senior Prepetition Credit Agreement totaled approximately \$100 million plus \$7.4 million in unfunded letters of credit. The obligations under the senior credit agreement will convert to “New Term Loan Notes” pursuant to the Plan. As of September 1, 2005, obligations outstanding under the Junior Prepetition Credit Agreement totaled approximately \$677.3 million plus accrued and unpaid interest. The obligations under the Junior Prepetition Credit Agreement will be converted into equity pursuant to the Plan. The total debt currently guaranteed by McLeodUSA’s pledge of all or substantially all of its assets is, as of September 1, 2005, approximately \$785 million plus accrued and unpaid interest.

McLeodUSA as a viable competitor and precluding any disruption in service that might otherwise result from the financial condition of the Petitioner and Parent.

The Petitioner states that the Parties will seek expedited consideration of the Plan before the Bankruptcy Court and that the proceedings are expected to conclude on or about November 28, 2005. In a response to a Data Request from the TRA Staff, the Petitioner states that it has filed applications with the Federal Communications Commission (“FCC”) International Bureau and the FCC Wire Competition Bureau for approval of the Plan and expects that action will be taken on such applications by December 15, 2005.

November 21, 2005 Authority Conference

The Petitioner filed its *Petition* pursuant to Tenn. Code Ann. § 65-4-113 (2004) and pursuant to any other authority necessary. The Authority noted that the proposed restructuring included a financing transaction that requires Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004). The transfer at issue in this docket is governed by Tenn. Code Ann. § 65-4-113 (2004). That provision requires a public utility to obtain TRA approval before transferring its authority to provide utility services in Tennessee. Tenn. Code Ann. § 65-4-113(a) (2004) reads as follows:

No public utility, as defined in § 65-4-101, shall transfer all or any part of its authority to provide utility services, derived from its certificate of public convenience and necessity issued by the authority, to any individual, partnership, corporation or other entity without first obtaining approval of the authority.

Tenn. Code Ann. § 65-4-113(b) (2004) includes the standards by which the TRA shall consider an application for transfer of authority, in pertinent part as follows:

Upon petition for approval of the transfer of authority to provide utility services, the authority shall take into consideration all relevant factors, including, but not limited to, the suitability, the financial responsibility, and capability of the proposed transferee to perform efficiently the utility services to be transferred and the benefit to the consuming public to be gained from the transfer. The authority shall approve the transfer after consideration of all relevant factors and upon finding that such transfer furthers the public interest.

The financing transaction at issue in this docket is governed by Tenn. Code Ann. § 65-4-109 (2004) which states:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

At a regularly scheduled Authority Conference held on November 21, 2005, the panel voted unanimously to approve the *Petition* contingent on approval of the restructuring by the FCC. In addition, the panel voted unanimously to approve the financial transaction contained in the *Petition* and made the following findings:

1. The proposed transaction is subject to approval pursuant to Tenn. Code Ann. § 65-4-109 (2004).³
2. The proposed transaction is being made in accordance with the laws enforceable by the Authority.
3. The purpose of the transaction is in the public interest because it will provide liquidity for operating and working capital to allow McLeodUSA to emerge from the Restructuring as a financially stronger operation.

IT IS THEREFORE ORDERED THAT:



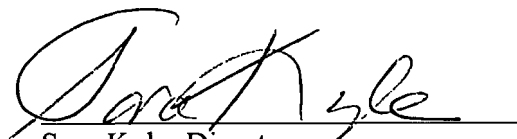
1. The financial restructuring and accompanying indirect transfer of authority of McLeodUSA Telecommunications Services, Inc. as described in the *Petition* and discussed

³ See *In re Petition of Knology, Inc. and Knology of Tennessee, Inc. for Financing Approval*, Docket No 05-00217, *Order Approving Financing Transactions*, p 4 (October 28, 2005) for an enumeration of factors relevant to the Authority's review of financing transactions

herein is approved contingent on approval of the restructuring by the Federal Communications Commission.

2. McLeodUSA Telecommunications Services, Inc. is authorized to enter into the financing transaction as described in the *Petition* and discussed herein.

3. The authorization and approval given hereby shall not be used by any such party, including but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risk involved to a purchaser has been performed. Nothing contained herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof for the transactions approved herein.


Deborah Taylor Tate, Director
Pat Miller, Director
Sara Kyle, Director